

Note: All questions are compulsory.

Question 1 (8 marks)

Cash Flow Statement
As on 31st March, 2015

	Amount(')	Amount(')
A. Cash Flow from Operating Activities (3 marks)		
Profit and Loss A/c(Closing)		
Less: Profit and Loss A/c(Opening)		
Add: Transfer to General Reserve	6,75,000	
Provision for Tax	4,50,000	
Proposed Dividend	9,10,000	20,35,000
Profit before Tax		24,10,000
Adjustment for Depreciation		
Land and Building (on building)	6,80,000	
Plant and Machinery	15,02,400	21,82,400
Loss on Sale of Plant and Machinery		1,75,000
Goodwill written off		2,25,000
Interest 13% Debentures		5,65,500
Premium on Redemption		1,45,000
Operating Profit before Working Capital Changes		57,02,900
Adjustment Working Capital Changes		
Decrease in Stock	5,50,000	
Increase in Debtors	(11,75,000)	
Increase in Current Liabilities	2,50,000	(3,75,000)
Cash generated from Operating		53,27,900
Income tax paid		(225,000)
Net Cash Inflow from Operating Activities (a)		51,02,900
B. Cash flow from Investing Activities (1mark)		
Sale of Investment		4,50,000
Sale of Plant and Machinery		6,25,000
Purchase of Plant and Machinery		(55,85,400)
Net Cash Inflow from Operating Activities (b)		(45,10,400)
C. Cash flow from Financing Activities(1 ½ marks)		
Issue of Equity Shares		27,50,000
Redemption of Debentures		(14,50,000)
Redemption of Debentures at premium		(1,45,000)
Dividend Paid		(7,50,000)
Interest paid to Debentures holders		(5,65,500)
Net Cash Outflow from Financing Activities (c)		(1,60,500)
Net increase in Cash and Cash Equivalent during the year (a+b+c)		4,32,000

Cash and Cash Equivalent at the beginning of the year		14,93,000
Cash and Cash Equivalent at the end of the year		19,25,000

Working Notes:

1. Provision for the Tax Account (1/2 mark)

To Bank(paid)	2,25,000	By Balance b/d	22,50,000
To Balance c/d	24,75,000	By Profit and Loss A/c (Provision)	4,50,000
	27,00,000		27,00,000

2. Investment Account (1/2 mark)

To Balance b/d	25,00,000	By Bank A/c (bal Figure sale)	4,50,000
To General Reserve A/c (Profit on Sale)	75,000	By Balance c/d	21,25,000
	25,75,000		25,75,000

3. Plant and Machinery Account (1/2 mark)

To Balance b/d	75,12,000	By Bank (Sale)	6,25,000
To Bank A/c (Purchase –Bal. figure)	55,85,400	By Profit and Loss A/c (Loss on sale)	1,75,000
		By Profit and Loss A/c (Depreciation)	15,02,400
		By Balance c/d	1,07,95,000
	1,30,97,400		1,30,97,400

4. Proposed Dividend Account (1/2 mark)

To Bank(paid)	7,50,000	By Balance b/d	7,50,000
To Balance c/d	9,10,000	By Profit and Loss A/c	9,10,000
	16,60,000		16,60,000

5. General Reserve Account (1/2mark)

		By Balance b/d	42,50,000
		By Profit & Loss (transfer from)	6,75,000
To Balance c/d	50,00,000	By Investment (Gain on Sale)	75,000
	50,00,000		50,00,000

Question 2 (4 marks)

Advise to the Management

Option I: Cash Down Payment (1 ½ marks)

Cash down payment= Rs 7,50,000

Option II: Annual Installment Basis(1 ½ marks)

Annual installment = $9,00,000 \times 1/6 = \text{Rs } 1,50,000$

Present Value of 1 to 6 instalments @12%

$$= 1,50,000 \times 4.111$$

$$= \text{Rs } 6,16,650$$

Advise: Mr. Patel should buy Xerox machine on installment basis because the present value of cash out flows is lower than cash down payment. This means Option II is better than Option I. (1 mark)

Question 3 (5 marks)

- a. Interest @ 24% pa for a period of 30 days (year 365 days) = $0.24 \times 30 / 365 = 0.019726$ ie 1.9726 %.
The present value as on zero date will be $1 / 1.019726 = 0.980656$. Hence discount which can be offered to receivables as on zero date = $1 - 0.980656 = 0.019344$ i.e. 1.93%.
(1 marks for calculation of present value and 1 marks for calculation of discount)

- b. **Schedule of Changes in Working Capital (1 marks)**

Particulars	31 st March		Working Capital	
	20x8 (')	20x9 (')	Increase (')	Decrease (')
A. Current Assets				
Stock	3,60,000	3,50,000	--	10,000
Sundry Debtors	3,00,000	3,90,000	90,000	--
Prepaid expenses	15,000	20,000	5,000	--
Cash and Bank	1,00,000	95,000	--	5,000
Total(A)	7,75,000	8,55,000		
B. Current Liabilities :				
Sundry Creditors	2,05,000	3,00,000	--	95,000
Bills Payables	45,000	81,000	--	36,000
Total(B)	2,50,000	3,81,000		
Working Capital (A-B)	5,25,000	4,74,000		
Decrease in Working Capital		51,000	51,000	
Total	5,25,000	5,25,000	1,46,000	1,46,000

- (b) Funds Flow statement for the year ending 31st March ,20x9 (2 marks)**

	(')
A. Sources of Funds:	
(i) Funds form Business Operations	7,49,000
(ii) Proceeds from issue of 9% Preference shares	5,00,000
(iii) Proceeds from sale of Plant & Machinery	32,000
(iv) Income tax refund	4,000
Total sources	12,85,000
B. Application of Funds:	
(i) Purchase of Land and Building	1,50,000
(ii) Purchase of Plant and Machinery	3,60,000
(iii) Redemption of 8% Debentures	2,06,000
(iv) Redemption of 9% Preference shares	3,15,000
(v) Payment of income tax assessed	1,05,000
(vi) Payment of interim dividend	50,000
(vii) Payment of dividend	1,50,000
Total uses	13,36,000
Net Decrease in Working Capital (a-B)	51,000

Working Notes:

- (1) Computation of Funds from Business Operation (1 mark)**

	(')
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Profit & Loss as on March 31,20x9	3,00,000
Add: Depreciation on Land and Building	50,000
Depreciation on Plant and Machinery	1,20,000
Loss on sale of Plant and Machinery	8,000
Preliminary expenses written off	5,000
Transfer to General Reserve	50,000
Proposed dividend	2,60,00
Provision for tax	1,06,000
Interim dividend paid	50,000
	9,49,000
Less: Profit and Loss as on March 31,20X8	2,00,000
Fund from Operations	7,49,000

(2) Plant & Machinery A/c(1/4 mark)

	(₹)		(₹)
To Balance b/d	9,00,000	By Depreciation	1,20,000
To Bank [Purchase (Bal.Fig)]	3,60,000	By Bank (Sale)	32,000
		By P/L A/c (Loss on Sale)	8,000
		By Balance c/d	11,00,000
	12,60,000		12,60,000

(3) Land and Building A/c(1/4 mark)

	(₹)		(₹)
To Balance b/d	6,00,000	By Depreciation	50,000
To Bank (Purchase)(Bal. fig.)	1,50,000	By Balance c/d	7,00,000
	7,50,000		7,50,000

(4) Advance Tax Payment A/c(1/4 mark)

	(₹)		(₹)
To Balance b/d	80,000	By Provisions for taxation A/c	76,000
To Bank (Paid for 08-09)	1,05,000	By Bank (Refund of tax)	4,000
		By Balance c/d	1,05,000
	1,85,000		1,85,000

(5) Provision for Taxation A/c(1/4 mark)

	(₹)		(₹)
Advance tax payment A/c	76,000	By Balance b/d	70,000
To Balance c/d	1,00,000	By P/L A/c (additional provision for 20X7-X8)	6,000
		By P/L A/c (Provision for X8-X9)	1,00,000
	1,76,000		1,76,000

(6) 8% Debentures A/c (1/4 mark)

	(₹)		(₹)
To Bank (2,00,000 x 103%) (redemption)	2,06,000	By Balance b/d	3,00,000
To Balance c/d	1,00,000	By Premium on redemption of Debentures A/c	6,000
	3,06,000		3,06,000

(7) 9% Preference Share Capital A/c (1/4 mark)

	(₹)		(₹)
To Bank A/c (redemption) (3,00,000 x 105%)	3,15,000	By Balance b/d	3,00,000
To Balance c/d	5,00,000	By premium on	15,000

		redemption of Preference shares A/c	
		By bank	5,00,000
	8,15,000		8,15,000

(8) Securities Premium a/c (1/4 mark)

	(₹)		(₹)
To Premium on redemption of debentures A/c	6,000	By Balance b/d	25,000
To Premium on redemption of preference shares A/c	15,000		
To Balance c/d	4,000		
	25,000		25,000

(9) General Reserve A/c (1/4 mark)

	(₹)		(₹)
To Bonus of Shareholders A/c	2,00,000	By balance b/d	3,50,000
To Balance c/d	2,00,000	By P/L A/c (transfer)	50,000
	4,00,000		4,00,000

Provision for tax and Advance tax may be taken as current liability and current assets respectively .

Question 4 (8 marks)

Statement showing the Working Capital Requirement of the Company (8 marks)

A. Current Assets (CA)	(₹)
Stock of raw materials [₹ 64,80,000 / 12 months) 2 months]	10,80,000
Work-in-progress [(₹ 1,51,20,000 4) / 52 months] 50%	5,81,538
Finished goods (₹ 1,51,20,000 / 12 months)	12,60,000
Debtors (₹ 28,80,000 80%) (Refer to Working note 2)	23,04,000
Cash balances	1,00,000
	<u>53,25,538</u>
B. Current Liabilities (CL)	
Creditors of raw materials (₹ 64,80,000 / 12 months)	5,40,000
Creditors for wages & overheads $\frac{28,80,000 \times 52}{52 \times 52} = 57,60,000$ 1.5 weeks 52 weeks	2,49,231
	<u>7,89,231</u>
Net Working Capital (CA - CL)	<u>45,36,307</u>

Working Notes:		(₹)
1. Annual raw materials requirements (1,44,000 units @ 45)		64,80,000
Annual direct labour cost (1,44,000 units @ 20)		28,80,000
Annual overhead costs (1,44,000 units @ 40)		57,60,000
Total Cost (Rs.)		1,51,20,000
2. Total Sales (1,44,000 units @ 120)		1,72,80,000
Two months sales (@ 1,72,80,000 / 6 months)		28,80,000

Question5 (8 marks) Statement showing the Evaluation of Debtors Policies (Total Approach)

Particulars	Present Policy (30 days)	Proposed Policy I (40 days)	Proposed Policy II (60 days)	Proposed Policy III (75 days)
	(₹)	(₹)	(₹)	(₹)
A. Expected Profit: (4 mark)				
(a) Credit Sales	4,20,000	4,41,000	4,72,500	4,83,000
(b) Total Cost (other than Bad Debts)				
(i) Variable Costs [Sales x 2/3]	2,80,000	2,94,000	3,15,000	3,22,000
(ii) Fixed Costs (W.N. 1)	35,000	35,000	35,000	35,000
Total Cost (Variable Cost+ Fixed Cost)	3,15,000	3,29,000	3,50,000	3,57,000
(c) Bad Debts	4,200 (1% of 4,20,000)	6,615 (1.5% of 4,41,000)	14,175 (3% of 4,72,500)	19,320 (4% of 4,83,000)
(d) Expected Profit [(a) – (b) – (c)]	1,00,800	1,05,385	1,08,325	1,06,680
B. Opportunity Cost of Investments in Receivables * (2 marks)	5,250 (315000*30/100*20/360)	7,3 (329000*40/360*20/100)	11,66 (350000*60/100*20/360)	14,875 (357000*75/360*20/100)
C. Net Benefits (A – B)(1mark)	95,550	98,074	96,658	91,805

Recommendation: The Proposed Policy I (i.e. increase in collection period by 10 days or total 40 days) should be adopted since the net benefits under this policy are higher as compared to other policies. (1 mark)

Working Note- 1:

(i) **Calculation of Fixed Cost**

$$= [\text{Average Cost per unit} - \text{Variable Cost per unit}] \times \text{No. of Units sold}$$

$$= [(2.25 - 2) \times (4, 20,000/3)] = `35,000$$

*Calculation of Opportunity Cost of Average Investments

$$\text{Opportunity Cost} = \text{Total Cost} \times \frac{\text{Collection period}}{360 \text{ days}} \times \frac{\text{rate of return}}{100}$$

Question6 (8 marks)

Cash Budget for the month of October 2016 to December 2016 (Amount in lakhs)

Particulars	October(Rs.)	November (Rs.)	December(Rs.)
(i) Opening cash balance (1/2 mark)	10.00	14.25	21.25
(ii) Cash Sale (1/2 mark)	4.00 (10% of 40)	4.50 (10% of 45)	4.60 (10% of 46)
(iii) Cash collection for credit sale: (2 marks)			
-For August sale	15.75 (35x90% x50%)	-	-
-For September sale	18.00 (40x90% x 50%)	18.00 (40x 90% x 50%)	-
-For October sale	-	18.00 (40x90% x 50%)	18.00 (40x90% x 50%)
-For November sale	-	-	20.25 (40x90% x 50%)
Total cash collection from credit sales (iii)	33.75	36.00	38.25
Total Cash inflow	47.75	54.75	64.10
(iv) Payment to creditors: (2marks)			
-For September purchase	29.00 {{(80% OF Rs.40)-3}}	-	-
-For October purchase	-	29.00 {{(80% OF Rs.40)-3}}	-
-For November purchase	-	-	33.00 {{(80% OF Rs.45)-3}}
Total of payment made to creditors (iv)	29	29	33
(v) Payment of wages & salaries (1/2 mark)	3.00	3.00	3.00
(vi) Interim dividend (1/2 mark)	-	-	2.00
(vii) Installment for machinery (1/2 mark)	0.50	0.50	0.50
(viii) Administrative expenses (1/2 mark)	1.00	1.00	1.00
Total Cash outflow(B)	33.50	33.50	39.50
Closing cash balance (A-B) (1 mark)	14.25	21.25	24.60

Question7 (6 marks)

a)(3 marks)

The points of distinction between Funds flow and Cash flow are as below:

Funds flow	Cash flow
(i) It ascertains the changes in financial position between two accounting periods.	(i) It ascertains the changes in balance of cash in hand and bank.
(ii) It analyses the reasons for change in financial position between two balance sheets	(ii) It analyses the reasons for changes in balance of cash in hand and bank
(iii) It reveals the sources and application of funds.	(iii) It shows the inflows and outflows of cash.
(iv) It helps to test whether working capital has been effectively used or not.	(iv) It is an important tool for short term analysis.
	(v) The two significant areas of analysis are cash generating efficiency and free cash flow.

b) (3 marks)

Time value of money means that worth of a rupee received today is different from the worth of a rupee to be received in future. The preference of money now as compared to future money is known as time preference for money.

A rupee today is more valuable than rupee after a year due to several reasons:

- Risk:** There is uncertainty about the receipt of money in future.
- Preference for present consumption** Most of the persons and companies in general, prefer current consumption over future consumption.
- Inflation** In an inflationary period a rupee today represents a greater real purchasing power than a rupee a year hence.
- Investment opportunities** Most of the persons and companies have a preference for present money because of availabilities of opportunities of investment for earning additional cash flow.

Many financial problems involve cash flow accruing at different points of time for evaluating such cash flow an explicit consideration of time value of money is required.
